ANNUAL REPORT 1994

OILEXCO INCORPORATED

BALANCING EXPLORATION RISK FOR LONG-TERM GROWTH

OILEXCO
INCORPORATED

Corporate Profile

Oilexco Incorporated is a Canadian energy company committed to achieving growth and creating shareholder value through oil and gas exploration and strategic reserve acquisitions.

The Company's exploration program targets high quality oil and gas reserves and production in its four core areas: the Edson area of west central Alberta, the Senex/Talbot Lake area of north central Alberta, the Creelman/Hartaven area of southeastern Saskatchewan, and Mountrail County, North Dakota. The Company also holds an interest in and operates a number of shallow Viking Sand oil wells in the Forgan area of southwestern Saskatchewan.

Joint ventures with industry partners and drilling funds are key to Oilexco's long-term growth. Through unique arrangements, Oilexco achieves leverage by reducing its capital requirements and Company overhead, while maintaining proportionate revenue interests on exploration assets.

The common shares of Oilexco Incorporated are listed for trading on the Alberta Stock Exchange under the symbol "OIL".

Abbreviations

Bbls	Barrels
Bbls/d	Barrels per day
Bcf	Billion cubic feet
BOE	Barrel(s) of oil equivalent *
Mbbls	Thousand barrels
MBOE	Thousand barrels of oil equivalent *
Mcf	Thousand cubic feet
Mcf/d	Thousand cubic feet per day
NGL	Natural gas liquids
WTI	West Texas Intermediate

* Barrels of oil equivalence (10 Mcf = 1 BOE)

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HIGHLIGHTS

Financial

($, except per share data)		1994
Gross revenue	$	869,259
Funds from operations		308,605
- per share		0.04
Net earnings		68,223
- per share		0.01
Capital expenditures		1,692,657
Long-term debt		nil
Shareholders' equity		2,171,334
Outstanding common shares (weighted average)		8,215,777

Operating

Production	
Crude oil (Bbls/d)	70
Reserves (proven and probable)	
Crude oil and natural gas liquids (Mbbls)	279
Natural gas (Bcf)	5.0
Barrels of oil equivalent (MBOE)	779
Land (net acres)	
Developed and undeveloped	20,608
Undeveloped	19,850

ANNUAL GENERAL MEETING

The Annual General Meeting of shareholders of Oilexco Incorporated will be held on May 24, 1995 at 3:00 p.m. in the Royal Room at the Metropolitan Centre located at the "plus 15 level", Calgary Place, 333 - 4th Avenue S.W., Calgary, Alberta, Canada.

LETTER TO SHAREHOLDERS

A solid year for Oilexco

On behalf of the Board of Directors, I am pleased to report that Oilexco Incorporated has substantially increased its reserves and exploration inventory.

With the benefit of sound strategic planning and a confident management team, the Company is well positioned to continue capitalizing on oil and natural gas prospects located in its four core areas: the Edson area of west central Alberta, the Senex/Talbot Lake area of north central Alberta, the Creelman/Hartaven area of southeastern Saskatchewan, and Mountrail County, North Dakota.

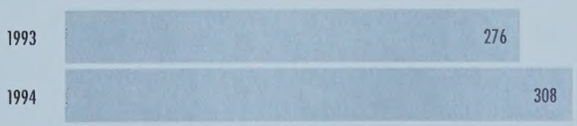
During 1994, Oilexco was actively exploring a large inventory of high quality prospects and using its extensive seismic database of over 20,000 kilometres of data.

Equity financing raises capital

In March 1994, Oilexco completed a private placement of 1.2 million common shares at $1.25 per share for gross proceeds of $1.5 million.

The financing initiative strengthened the Company's balance sheet, enhancing its financial security and freeing up cash flow of $308,605 or $0.04 per share to eliminate the Company's debt. This initiative also enabled Oilexco to actively pursue land and seismic acquisitions and undertake an active drilling program.

CASH FLOW ($ THOUSANDS)



Our lean operating structure and substantial land base puts us in a favourable position to take advantage of our high quality exploration and development prospects in achieving our primary goal of increasing production and reserves.

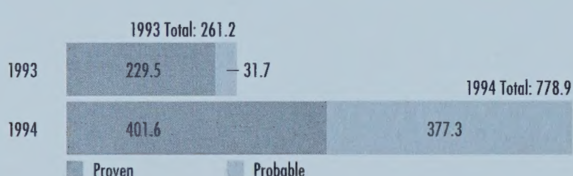
Increased drilling activity

During 1994, Oilexco drilled a total of five gross (1.37 net) wells. In the Edson area, three wells were drilled resulting in two successful gas wells (0.38 net). One exploratory well at Creelman was drilled resulting in a successful oil discovery (0.50 net) and one well was drilled in our North Dakota area, resulting in one dry hole (0.30 net).

Solid reserves — key to future growth

Oilexco's oil production is currently 70 barrels per day. The Company is well positioned for growth, with a solid reserve base. Proven oil and natural gas liquids reserves are 171,600 barrels and proven natural gas reserves are 2.3 billion cubic feet. Probable oil and natural gas liquids reserves are 107,300 barrels. Probable natural gas reserves are 2.7 billion cubic feet.

BOE RESERVES (Mbbls)



Oilexco's oil and natural gas reserve base, seasoned management team and balanced exploration approach, position the Company to exploit future growth opportunities.

I am very optimistic about our potential in 1995. We will continue to conduct our affairs cautiously, balancing risk with reward in locating large reserves of oil and natural gas and developing value-added exploration and development prospects.

Our 1995 goals reflect our commitment to growth; Oilexco will continue creating and enhancing shareholder value by:

- increasing cash flow and cash flow per share
- developing the Creelman oil field
- optimizing production at Forgan, Saskatchewan
- acquiring additional lands on new prospects in core areas
- reducing operating costs on a BOE basis
- farming out exploration prospects to drilling funds and industry partners
- concluding a strategic acquisition in one of our core areas

Acknowledgments

Oilexco's past success and future growth is dependent on its hard working and highly skilled team of professionals dedicated to creating and enhancing value for our shareholders. In addition, we are very fortunate to have a strong and experienced Board of Directors, and we look forward to receiving their ongoing advice and counsel.

Oilexco would also like to thank Thomas H. Gorkoff, who resigned as an officer and director of the Company in December 1994, for his help in guiding the Company during its formative stages. I would also like to thank our shareholders for their continued interest in, and support of, the Company.

On behalf of the Board of Directors,

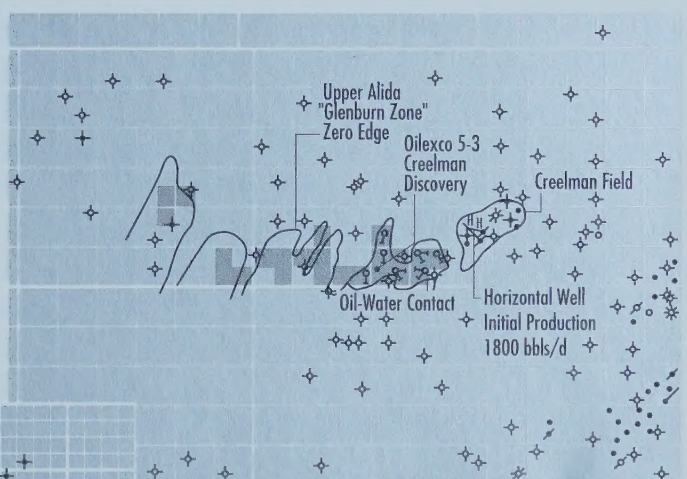
Arthur S. Millholland,
President & CEO

April 7, 1995

OILEXCO ACQUIRED LANDS DURING 1994 ON SEVERAL SHALLOW MISSISSIPPIAN OIL PROSPECTS

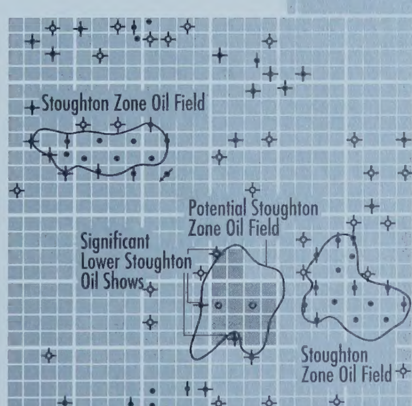
DEFINED BY SEISMIC AND GEOLOGY ALONG THE PROLIFIC FROBISHER/ALIDA TREND.

WILLISTON BASIN, SOUTHEASTERN SASKATCHEWAN



Activity is centered on the west end of this trend in the Creelman/Hartaven area. Oilexco's working interest in this property is 50 percent.

In October 1994, the Company drilled a successful exploratory oil well at Creelman, which is currently undergoing production testing to achieve stabilized production rates.



Subsequent to year end, the Saskatchewan Government granted approval for the drilling of horizontal wells to develop this new oil field. Oilexco has identified up to seven development horizontal locations at its Creelman field, with the first location to be drilled immediately after spring breakup in April 1995.

The Company is optimistic about the potential of this horizontal drilling program as horizontal wells in analogous fields in the Creelman area have had initial production rates in excess of 1,000 barrels of oil per day.

In late February 1995, Oilexco concluded a farmout agreement with a private company. This arrangement allows Oilexco to retain operatorship and a 25 percent working interest in each horizontal well drilled, with development costs assumed by the private company.

For the remainder of 1995, Oilexco will continue to acquire additional lands and seismic in the Creelman area, and will drill up to three more exploratory wells.

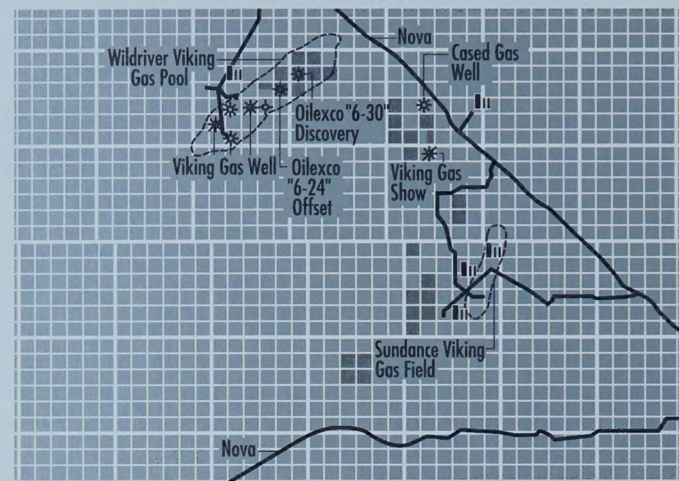
Williston Basin, Mountrail County, North Dakota

The Company's Mountrail County project area is located approximately 80 miles south of Estevan, Saskatchewan. Oilexco and its joint venture partner are focusing on light oil reservoirs in Mississippian Carbonates at moderate depths. The potential of this prospect appears to be quite large.

After identifying three prospects on the Company's current land holdings in this area, Oilexco drilled one well in October 1994 resulting in oil-bearing fractured reservoirs in two prospective horizons that were subsequently deemed non-commercial.

The Company is currently assessing deepening the initial test well to evaluate a potential prolific lower Mississippian target. Two additional prospects, defined by geology and seismic, and supported by offsetting oil shows, are considered to be high risk with a 10 percent probability of success. Oilexco will solicit an additional joint venture partner to evaluate these prospects.

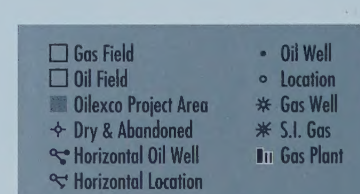
Edson, Alberta



The Edson area, located 120 miles west of Edmonton is a gas-prone area with gas prospects in multiple zones at moderate drilling depths.

During 1993 and 1994, Oilexco acquired lands on six prospects defined by geologic and seismic mapping within a 30 township block. During the first six months of 1994, the Company drilled two of these prospects, resulting in one gas discovery at Wildriver in the targeted reservoir and one dry hole. In the spring of 1994, the Company successfully drilled an offset gas well to its initial gas discovery. Gas reserves for these two wells total 12.2 gross (2.3 net) billion cubic feet of proven and 14.1 gross (2.7 net) billion cubic feet of probable reserves.

Edson's remaining exploration projects are similar to Wildriver, possessing moderate risk with a 30 percent probability of success. All prospects have been defined with multiple seismic lines along mappable geologic trends.



The two gas wells at Wildriver will be tied in during 1995 if gas prices increase and stabilize. The Company also plans to acquire additional seismic and drill one to two exploratory wells with a nine percent working interest and 10 percent carried working interest, respectively.

SENEX/TALBOT LAKE, ALBERTA

Located in north central Alberta, the Senex/Talbot Lake area is prospective for gas at shallow depths of 500 to 700 metres and oil at moderate depths of 1,200 to 1,300 metres.

In January 1994, Oilexco successfully acquired 6,080 gross (1,155 net) acres on a seismically defined multi-zone oil and gas prospect.

Intense industry drilling activity targeting shallow natural gas prospects is presently occurring in the vicinity of the Company's current leasehold. Industry competitors have licensed 31 wells in the area. A large number of these locations have been drilled resulting in 12 gas discoveries.

Oilexco's 1,600 kilometre regional seismic database at Senex has allowed seismically mapped features on Company acreage to be compared to similar features that have been successfully drilled by industry competition. Oilexco considers this prospect to be of moderate risk, having a 50 percent probability of success.

The Company's land in this area is also prospective for oil in a deeper zone, Devonian Granite Wash sandstones. Although this reservoir is prolific in analogous producing oil fields to the south, this prospect is considered high risk, having a 10 percent probability of success.

LAND

During 1994, Oilexco acquired leases in all of its core areas including 9,280 gross (1,763 net) acres in Edson and Senex/Talbot Lake in Alberta, 3,680 gross (1,760 net) acres at Creelman and Viewfield North in Saskatchewan.

Oilexco's average working interest in undeveloped land decreased from 47 percent in 1993 to 36 percent in 1994 due to the relinquishment of a large number of leases in North Dakota.

LAND SUMMARY (UNDEVELOPED ACRES)

	1994			1993		
	Gross	Net	Average Interest	Gross	Net	Average Interest
Alberta	24,000	4,560	19%	24,460	4,682	19%
Saskatchewan	8,020	4,922	62%	4,440	3,334	75%
North Dakota	23,040	10,368	45%	177,000	88,000	50%
Total	55,060	19,850	36%	205,900	96,016	47%

1994 Drilling Results

	Working Interest Wells Exploration	
	Gross	Net
Oil	1.0	0.50
Gas	2.0	0.38
Dry	2.0	0.49
Total	5.0	1.37
Operated	1.0	0.50
Non-operated	4.0	0.87
Success Rate (%)	60.0	
Average Interest (%)	27.0	

Drilling

Oilexco participated in five gross (1.37 net) wells during 1994 at an average working interest of 27 percent and a success rate of 60 percent.

Key to Oilexco's success is the utilization of its extensive seismic database consisting of 20,000 kilometres of data. Although no seismic was acquired during 1994, seismic will play a significant role during the Company's 1995 drilling program.

During 1995, Oilexco expects to drill nine gross (2.9 net) development and exploratory wells at Creelman, Viewfield North and the Senex/Talbot Lake area at an estimated average working interest of 32 percent.

Horizontal drilling will play a significant role in the Company's total drilling program. In fact, all of Oilexco's southeastern Saskatchewan oil properties will be exclusively developed with horizontal wells.

Production and Reserves

Oilexco's total average production for 1994 was 70 barrels per day, down slightly from 83 barrels per day in 1993 due to natural declines at the Company's Forgan properties located in southwestern Saskatchewan. Oilexco is confident that production volumes should increase in 1995 as a result of the development drilling program planned for 1995 at Oilexco's Creelman oil field.

Oilexco's total proven reserves at year end 1994 (as evaluated by Chapman Petroleum Engineering Ltd. and Dobson Resource Management Ltd.) were 171,600 barrels of oil and natural gas liquids and 2.3 billion cubic feet of natural gas.

Proven and Probable Reserves

At December 31, 1994	Crude Oil & NGLs (Mbbls)	Natural Gas (Bcf)
Proven Producing	95.3	0
Proven Undeveloped	76.3	2.3
Total Proven	171.6	2.3
Probable	107.3	2.7
Total Proven and Probable	**278.9**	**5.0**

Proven and probable oil and gas reserves for 1994 were 278,900 barrels of oil and liquids and five billion cubic feet of gas (778,900 BOE), a 198 percent increase over 1993 proven and probable reserve levels which were 261,000 barrels of oil and liquids. Natural gas liquids and gas reserves were added by successful exploratory drilling at Wildriver in the Edson, Alberta area.

Finding and development costs for proven reserves in 1994 were $5.53 per BOE.

Present Value of Future Cash Flow

($ thousands)			
Discounted at:	0%	10%	15%
Proven	6,861.3	3,248.3	2,561.3
Probable (50%)	2,650.0	1,407.7	1,076.1
Total	**9,511.3**	**4,656.0**	**3,637.4**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Reverse Takeover

Effective December 10, 1993, Oilexco Ltd., a private oil and gas exploration company completed a reverse takeover of Triple "8" Energy Corporation. In the transaction, Oilexco Ltd. was deemed to be the acquirer. The accompanying financial statements reflect the position of Oilexco Incorporated (formerly Triple "8" Energy Corporation) at December 31, 1994.

The 1993 comparative financial statements are a combination of the operating results of Oilexco Ltd., from commencement of operations on April 5, 1993, and Triple "8" Energy Corporation from December 10, 1993 to December 31, 1993. Selected proforma financial information is included in the supplementary information on page 16 which assumes Oilexco Incorporated (formerly Triple "8" Energy Corporation) and Oilexco Ltd. had been combined on January 1, 1993.

Industry Overview

The past year was one of volatility in the oil and gas industry with respect to commodity prices. Natural gas prices were unstable throughout 1994 and were down significantly from the first half of the year as a result of increased storage capacity in the United States, unusually warm weather in North America and short-term excess deliverability in Alberta. Oil prices, on the other hand, have remained relatively stable over the past year.

Industry competition in 1994 ran at high levels. The availability of equity financing throughout 1993 allowed many oil and gas companies to increase their level of capital spending in 1994, placing greater demands and higher prices on land and equipment. In 1995, Oilexco expects competition will decrease due to current low gas prices and merger activity which will reduce overall expenditures applied to exploration and development.

Oilexco is well positioned for long-term growth and increased shareholder value because of its highly focused exploration and development program in its core areas in Alberta, Saskatchewan and North Dakota. With interests in both oil and gas, the Company will improve its financial results by focusing on high revenue, high deliverability targets.

Internally generated prospects maximize the strengths of the Company's exploration expertise through the integration of geological and geophysical data. The strategic use of an extensive seismic database of over 20,000 kilometres is instrumental in the future growth of Oilexco.

Environmental Management

In response to increasingly stringent environmental regulations and the desire to be a responsible corporate entity, Oilexco continues to review its operations to minimize the environmental impact of oil and gas exploration, development and production. Oilexco is committed to the continuous use and improvement of its environmental management strategies.

Financial Review

Revenue in 1994 totalled $869,259 and expenses before income taxes were $726,388, comprised of $156,941 in operating expense, $84,925 of royalties, $165,734 of depletion and depreciation expense, $311,627 in general and administration expense, and $7,161 of interest expense. Funds from operations were $308,605 ($0.04 per share) and net income was $68,223 ($0.01 per share).

Liquidity and Capital Resources

Oilexco's total capital program for 1994 amounted to $1.7 million and was funded from the equity issue and internal cash flow. The Company intends to finance the majority of its 1995 capital program through farm-out arrangements with industry partners and drilling funds, and given the appropriate circumstances, a public equity financing.

The Company has no long-term debt. In 1994, Oilexco established a line of credit of $250,000 which remains undrawn. At the end of 1994, the Company had working capital of $43,000.

Share Capital

Oilexco completed an equity issue during 1994 consisting of 600,000 common shares issued at $1.25 per share, 600,000 flow-through shares issued at $1.25 per share, 800,000 share warrants exercisable at $1.50 per share until March 7, 1995, and 600,000 flow-through share warrants exercisable at $1.50 per share until March 7, 1995. Total gross proceeds amounted to $1.5 million.

MANAGEMENT'S REPORT

The consolidated financial statements and the information contained therein have been prepared by management of the Company. The consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada and, where appropriate, reflect management's best estimates and judgments under the circumstances. A system of internal accounting control is maintained, consistent with reasonable costs, to provide reasonable assurance that assets are adequately safeguarded and that financial information is appropriately maintained for the preparation of reliable financial statements.

The Company's independent auditors, Arthur Andersen & Co., who are appointed by the shareholders, conduct an audit in accordance with generally accepted auditing standards to allow them to express an opinion on the consolidated financial statements.

The Audit Committee of the Board of Directors, with two of the three members not being officers of the Company, meets with management and Arthur Andersen & Co. to review these statements and related financial reporting matters prior to submitting the consolidated financial statements to the Board for approval.

Arthur S. Millholland, P.Geol.
President & CEO

Dennis J. Kwan
Dennis J. Kwan, CA
Treasurer and Controller

AUDITORS' REPORT

To the Shareholders of Oilexco Incorporated:

We have audited the consolidated balance sheets of Oilexco Incorporated as at December 31, 1994 and 1993 and the consolidated statements of income and retained earnings and changes in financial position for the year ended December 31, 1994 and for the period from April 5, 1993 (commencement of operations) to December 31, 1993. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1994 and 1993 and the results of its operations and the changes in its financial position for the year ended December 31, 1994 and for the period from April 5, 1993 (commencement of operations) to December 31, 1993 in accordance with generally accepted accounting principles.

Arthur Andersen & Co.
Chartered Accountants

Calgary, Alberta
March 29, 1995.

CONSOLIDATED BALANCE SHEETS

as at December 31

ASSETS (note 5)	1994	1993
Current Assets		
Cash	$ 209,634	$ 344,945
Marketable securities	8,000	8,000
Accounts receivable	193,376	210,340
Inventory	8,414	8,100
Prepaid expenses	7,146	5,217
	426,570	576,602
Property, Plant and Equipment (note 4)	2,164,874	1,188,126
	$ 2,591,444	$ 1,764,728

LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank loan (note 5)	$ –	$ 210,000
Accounts payable and accrued liabilities	383,587	310,321
	383,587	520,321
Future Site Restoration	14,210	760
Deferred Income Taxes	22,313	–
	420,110	521,081
Shareholders' Equity		
Share capital (note 6)	2,096,617	1,237,153
Retained earnings	74,717	6,494
	2,171,334	1,243,647
	$ 2,591,444	$ 1,764,728

APPROVED ON BEHALF OF THE BOARD

Arthur S. Millholland, Director

Philip C. Swift, Director

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS

For the year ended December 31, 1994 and the period from April 5, 1993 (commencement of operations) to December 31, 1993	Year ended Dec. 31, 1994	April 5, 1993 to Dec. 31, 1993
Revenue		
Oil sales	$ 582,668	$ 25,827
Other	286,591	104,433
	869,259	130,260
Expenses		
Operating	156,941	11,054
Royalties	84,925	7,496
Depletion and depreciation	165,734	6,660
General and administrative (note 10)	311,627	88,936
Interest	7,161	277
	726,388	114,423
Income before provision for deferred income taxes	142,871	15,837
Deferred income taxes (note 7)	74,648	9,343
Net income	68,223	6,494
Retained earnings, beginning of period	6,494	–
Retained earnings, end of period	$ 74,717	$ 6,494
Earnings per share (note 6)	$ 0.01	$ NIL
Fully diluted earnings per share (note 6)	$ 0.01	$ NIL

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the year ended December 31, 1994 and the period from April 5, 1993 (commencement of operations) to December 31, 1993	Year ended Dec. 31, 1994	April 5, 1993 to Dec. 31, 1993
Operating Activities		
Net income	$ 68,223	$ 6,494
Add items not affecting cash		
Depletion and depreciation	165,734	6,660
Deferred income taxes	74,648	9,343
Funds from operations	308,605	22,497
Change in non-cash working capital	87,987	(60,426)
	396,592	(37,929)
Financing Activities		
Shares issued for cash, net of expenses	1,363,254	467,000
Stock options exercised	7,500	–
Shares issued for reverse take-over (note 6)	–	760,810
	1,370,754	1,227,810
Investing Activities		
Additions to property, plant and equipment	(1,692,657)	(294,126)
Acquisitions (note 2)	–	(760,810)
	(1,692,657)	(1,054,936)
Increase in cash	74,689	134,945
Cash, beginning of period	134,945	–
Cash, end of period	$ 209,634	134,945
Represented by:		
Cash	$ 209,634	$ 344,945
Bank loan	–	(210,000)
	$ 209,634	$ 134,945
Basic funds from operations per share (note 6)	$ 0.04	$ 0.01
Fully diluted funds from operations per share (note 6)	$ 0.03	$ –

The accompanying notes form an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1994 and 1993

1) SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Oilexco Incorporated and its wholly-owned subsidiary Oilexco America, Inc. (together "the Company").

Oilexco Ltd., a former wholly-owned subsidiary, was amalgamated with Oilexco Incorporated effective August 31, 1994.

Property, Plant and Equipment

The Company follows the full cost method of accounting for oil and gas properties and related expenditures, whereby all costs relating to the exploration for and development of petroleum and natural gas reserves are capitalized and accumulated in cost centres on a country by country basis. Such costs include land acquisition, geological and geophysical, drilling, equipment and facilities, carrying charges on non-producing properties and related overhead. The Company has two cost centres, Canada and the United States.

The costs related to each cost centre, together with the costs of production equipment, are depleted and depreciated on the unit-of-production method based on the estimated proven reserves before royalties of each country. Oil and gas reserves and production are converted into equivalent units based upon estimated relative energy content.

Unevaluated properties are assessed periodically to ascertain whether impairment has occurred. When proven reserves are assigned or the property is considered to be impaired, the cost of the property or the amount of the impairment is added to costs subject to depletion.

The capitalized costs less accumulated depletion and depreciation in each cost centre, are limited to an amount equal to the estimated future net revenue from the estimated proven reserves at year end prices and costs, plus the lower of cost or estimated fair value of unevaluated properties. The total capitalized costs less accumulated depletion and depreciation, future site restoration and deferred income taxes of all cost centres is further limited to an amount equal to the estimated future net revenue from proven reserves at year end prices and costs, plus the lower of cost or estimated fair value of unevaluated properties of all cost centres less future site restoration costs, general and administrative expenses, financing costs and income taxes.

Proceeds from the sale of oil and gas properties are applied against capitalized costs, with no gain or loss recognized, unless such a sale significantly alters the rate of depletion and depreciation.

Estimated future site restoration costs are provided for on the unit-of-production method based on the estimated proven reserves. Costs are based on engineering estimates in accordance with current legislation and industry practices. The annual charge is recorded as additional depletion and depreciation. Actual expenditures are charged against the accumulated provision as incurred.

Other fixed assets are depreciated on a declining balance basis at 20% per year.

Joint Interest Operations

Substantially all of the Company's oil and gas activities are carried out jointly with others, and these consolidated financial statements reflect only the Company's proportionate interest in such activities.

Income Taxes

The Company follows the deferral method of tax allocation accounting for the timing differences between taxable and accounting income. Timing differences arise mainly due to capital cost allowance and resource deductions claimed by the Company for tax purposes in amounts differing from depletion and depreciation expense.

Foreign Currency Translation

The accounts of Oilexco America, Inc. are translated using the temporal method. Under this method monetary items are translated at the year-end exchange rate; non-monetary items are translated at historical exchange rates. Revenue and expenses are translated at the effective exchange rate at the transaction date if determinable, otherwise the weighted average exchange rates for the year. Exchange gains and losses from the translation of monetary items are included in the consolidated statement of income.

2) BUSINESS COMBINATION

Effective December 10, 1993 the Company (formerly Triple "8" Energy Corporation) completed a reverse take-over transaction by issuing five million common shares for all of the issued and outstanding shares of Oilexco Ltd. Oilexco Ltd. was a private company incorporated under the laws of the Province of Alberta and commenced operations on April 5, 1993. Following the transaction, the former shareholders of Oilexco Ltd. held a controlling interest of 69.2% in the Company, and Oilexco Ltd. was identified as being the acquirer for accounting purposes. The Company, deemed to be a continuation of the acquirer, changed its name from Triple "8" Energy Corporation to Oilexco Incorporated on March 1, 1994 and elected to change its fiscal year end from August 31 to December 31, commencing for the period ended in 1993.

The acquisition of the former Triple "8" Energy Corporation has been accounted for using the purchase method as detailed below.

Property and equipment	$	899,900
Other working capital		41,788
Bank loan		(180,878)
	$	760,810

The December 31, 1994 and 1993 consolidated financial statements have been prepared on the basis of the historical transactions of Oilexco Ltd. except the Company's share capital structure, being the number and type of shares issued which were adjusted to reflect that of Triple "8" Energy Corporation, including the shares issued to effect this acquisition. The operations of the former Triple "8" Energy Corporation have been included from the effective date of the acquisition.

3) EXPLORATION JOINT VENTURE

The Company has acquired petroleum and natural gas rights in Alberta through direct working interest and a carried interest from participation in an Exploration Joint Venture. The initial period of the Exploration Joint Venture was two years. The Company received a 10% carried interest in all expenditures made in the joint venture area up to and including all costs associated with the drilling, abandonment, completion and testing of the initial test well on each prospect area. To December 31, 1994, the carried interest has amounted to approximately $640,000 (1993 - $248,000). The Company had the right to elect to participate in any prospect area for up to an additional 9% undivided working interest not subject to the carried interest. The Company elected to participate in this additional interest in all prospect area lease acquisitions to date. The Exploration Joint Venture was terminated effective December 31, 1994.

Also, under the terms of the Exploration Joint Venture, the Company received a geological fee of $5,000 per month. The Company also provided geological and engineering professional services to the Exploration Joint Venture to be billed on a daily rate of $500 per day, plus disbursements.

4) PROPERTY, PLANT AND EQUIPMENT

	1994	1993
Oil and gas properties	**$2,850,117**	$ 1,181,055
Tax benefits renounced to flow-through shareholders	**(563,625)**	–
Other	**36,566**	12,971
	2,323,058	1,194,026
Accumulated depletion and depreciation	**(158,184)**	(5,900)
	$2,164,874	$ 1,188,126

During the period the Company capitalized $164,926 (1993 - $2,500) of administrative overhead to oil and gas properties.

Costs of acquiring unevaluated properties, amounting to $406,465 (1993 - $250,420) have been excluded from depletion calculations.

5) BANK LOAN

The Company has an available line of credit of $250,000 and bears interest at prime plus 1.25% per annum. The loan is collateralized by a fixed and floating charge debenture in the principal amount of $1,000,000 over all assets and undertakings of the Company, a general security agreement, an environmental indemnity and an assignment of accounts receivable. At December 31, 1994 there was no outstanding balance on this line of credit.

6) SHARE CAPITAL

a) Authorized

i) Unlimited number of voting Common Shares without nominal or par value.

ii) Unlimited number of Preferred Shares issuable in series.

b) **Issued**

	Number	Consideration
Common Shares:		
Issued for cash	1,722,925	$ 250,000
Flow-through shares	500,000	250,000
Share issue costs	–	(33,000)
Issued to acquire the former Triple "8" Energy Corporation	5,000,000	760,810
Deferred income taxes on issue costs	–	9,343
Balance, December 31, 1993	7,222,925	1,237,153
Stock options exercised	12,500	7,500
Issued for cash	600,000	750,000
Flow-through shares	600,000	750,000
Share issue costs	–	(136,746)
Tax benefits renounced to flow-through shareholder	–	(563,625)
Cancellation of escrowed shares	(8,593)	–
Deferred income taxes on issue costs	–	52,335
Balance, December 31, 1994	8,426,832	$ 2,096,617

Subsequent to year end, an application to the Alberta Securities Commission was made to cancel 2,650,000 Common Shares currrently held in escrow and the affected shareholders have consented to cancel those shares.

c) **Per Share Data**

Basic earnings and funds from operations per share are calculated based on the weighted average number of 8,215,777 (1993 - 3,750,000) shares outstanding during the period. Fully diluted earnings and funds from operations per share are calculated based on 10,137,626 shares before considering the proposed cancellation of 2,650,000 escrowed Common Shares, cancellation of stock options, or expiration of outstanding warrants subsequent to year end. The effect of the exercise of stock options in 1993 was anti-dilutive.

d) **Stock Options**

The Company has reserved 722,293 Common Shares under a stock option plan. Options are exercisable over a period of five years.

	Number of Options	Exercise Price	Expiry Date
Balance, January 1, 1994	75,000	$0.60	May 5, 1995
Options exercised	(12,500)	0.60	May 5, 1995
Granted	420,000	1.25	Feb. 25, 1999
Granted	75,000	0.35	Dec. 8, 1999
Balance, December 31, 1994	557,500		

Subsequent to year end, 25,000 stock options priced at $0.60 and 85,000 stock options priced at $1.25 were cancelled.

e) **Flow-through Shares**

During 1994 the Company issued 600,000 (1993 - 500,000) flow-through shares for cash consideration of $750,000 or $1.25 per share (1993 - $250,000 or $0.50 per share). Under the terms of the flow-through share agreements, the Company agreed to use its best efforts to utilize the proceeds from the issues to incur certain qualified expenditures and renounce the related tax deductions to the subscribers. These obligations were fulfilled by year end. The qualified expenditures are recorded as oil and gas property additions net of the tax benefit renounced to the flow-through shareholders.

Included in the share capital of the former Triple "8" Energy Corporation were 250,000 flow-through shares issued for cash consideration of $250,000 or $1.00 per share. The qualified expenditures related to these flow-through shares were incurred in 1994 and are recorded as oil and gas property additions net of the tax benefit renounced to the flow-through shareholders.

f) Warrants

Pursuant to the private placement memorandum dated January 28, 1994 with amendments dated February 24, 1994 relating to the sale of 600,000 Common Shares and 600,000 flow-through shares, the Company issued 800,000 common share warrants and 600,000 flow-through share warrants. Each common share warrant or flow-through share warrant entitles the holder to acquire by March 7, 1995 one Common Share or one flow-through share, respectively, upon exercise together with payment of $1.50 per warrant.

Subsequent to year end, all of the common share warrants and flow-through share warrants expired unexercised.

7) INCOME TAXES

The income tax provision differs from the expected result obtained by applying the effective tax rate of 45% on Canadian operations and 25% on U.S. operations (1993 - 44%) to earnings before income taxes as summarized below:

	1994	1993
Income before deferred income taxes	$ 142,871	$ 15,837
Expected tax provision	$ 46,456	$ 6,968
Non-deductible crown charges	18,876	2,375
Non-deductible depletion	9,316	–
Actual tax provision	$ 74,648	$ 9,343

At December 31, 1994, property, plant and equipment with a net book value of $665,714 (1993 - Nil) has no cost basis for income tax purposes.

The Company has loss carry-forwards for tax purposes of approximately $1,893,000 (1993 - $1,756,000) with expiry dates ranging from 1995 to 2001.

8) SEGMENTED INFORMATION

The Company's major industry segment is the business of oil and gas exploration and development. Foreign operations are not significant.

9) COMMITMENTS

The minimum rentals payable under a lease agreement for premises, exclusive of certain operating costs for which the Company is responsible, are as follows:

1995	$ 22,250
1996	7,417
1997 and thereafter	–
	$ 29,667

10) RELATED PARTY TRANSACTIONS

The Company pays management fees in lieu of salary for the services of the President and the Vice President. Management fees totalling $147,000 (1993 - $51,333) have been paid to companies controlled by these individuals including a one time severance payment in 1994.

The Company pays legal fees to a law firm in which a director of the Company is a partner. Legal fees totalling $45,038 (1993 - $29,701) have been paid to this law firm in 1994.

The Company paid consulting fees to a company controlled by a director of the corporation. Fees totalling $1,280 were paid in 1994.

The Company paid financing fees of $5,000 in 1994 to a company in which a director of the corporation is a principal.

11) COMPARATIVE FIGURES

Comparative figures for 1993 have been reclassified to conform with the financial statement presentation adopted for 1994.

The following pro-forma information has been compiled on a historical basis as if Oilexco Incorporated and Oilexco Ltd. were combined on January 1, 1993, and Oilexco Ltd. commenced operations on the same date. This information may not be indicative of the operating results that may occur in the future.

Selected Pro-Forma Financial Information
For The Year Ended December 31, 1993
(Unaudited)

Revenues	
Oil sales	$ 716,689
Other	282,880
	999,569
Expenses	
Operating	251,682
Royalties	109,555
Depletion and depreciation	149,541
General and administrative	346,990
Interest	15,209
	872,977
Income before provision for deferred income taxes	126,592
Deferred income taxes	58,199
Net income	$ 68,393
Funds from operations	$ 276,133

CORPORATE INFORMATION

Directors
Arthur S. Millholland
President & CEO
Oilexco Incorporated
Calgary, Alberta

Denis L. Russell
Petroleum Engineer
Vancouver, British Columbia

William H. Smith
Partner
McCarthy Tetreault
Calgary, Alberta

Philip C. Swift
Managing Director
PowerWest Financial Ltd.
Calgary, Alberta

Management
Arthur S. Millholland, P. Geol.
President & CEO

Dennis J. Kwan, C.A.
Treasurer & Controller

Auditors
Arthur Andersen & Co.
Chartered Accountants
Calgary, Alberta

Bankers
Canadian Western Bank
Calgary, Alberta

Royal Bank of Canada
Calgary, Alberta

Legal Counsel
McCarthy Tetreault
Calgary, Alberta

Field and Field Perraton
Calgary, Alberta

Transfer Agent and Registrar
Montreal Trust
Calgary, Alberta

Share Listing
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